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A DECADE OF AMERICAN FINANCE.

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I

WHEN the National Banking law under which we now have the finest banking system in the world, was first proposed, it had few friends. Sherman of Ohio, Fessenden of Maine, and Hooper of Boston, were conspicuous among them. Secretary Chase was determined to bring his bill before the House, but its chances of passage seemed hopeless. By some it was ridiculed, by others bitterly antagonized. Jay Cooke & Co. were recognized at the national capital as a financial agency of the government, the war loans having all passed through their hands. An appeal was made for their influence in behalf of the National Bank Act.

I took the Chase bill home with me one afternoon early in January, 1863, and, with my brother and partner, Henry D. Cooke, Governor of the District of Columbia, sat up till midnight reading and discussing it. We came to the conclusion that it ought to pass. Shortly afterward Mr. Hooper introduced it. In six weeks it did pass with great unanimity—considering the unfriendly reception it had had at first. On February 25th, 1863, this measure received the signature of President Lincoln.

Immediately questions arose as to how to organize a national

bank. I drafted a formula for a charter and many of the first banks were practically organized by Jay Cooke & Co. The first charter issued should have named the First National Bank of Washington, which holds, I think, the thirty-sixth; but my partners and I were too much engaged on more important matters to seek on our own behalf this honor of priority which fell to the First National Bank of Philadelphia, which holds charter number one, its papers having been the first to reach the Treasury. That bank was organized and principally owned by Jay Cooke & Co., as was also the First National Bank of Washington.

When the Comptroller of the Currency made his first report on the new system, in November, 1863, one hundred and thirty-four national banks had been organized, and the greatest interest had been aroused throughout the country. The first national bank notes made their appearance late in December of that year. Experience having shown the advisability of certain amendments and modifications in the law, another act was drafted which became a law on June 3d, 1864. In the year ending October 31st, 1864, four hundred and fifty-three national banks were organized, with an aggregate capital of $79,366,950. In the year ending October 31st, 1865, one thousand and fourteen national banks were organized, with an aggregate capital of $242,542,982. The advantage taken of the act was immediate and general throughout the country, with one important exception. The year 1865 was the birth-year of a great majority of the new banks; in the year ending October 31st, 1866, only sixty-two national banks were organized, and in the succeeding year only ten.

New York, however, came in slowly. One might have expected the first charter in New York City to go to the Bank of New York, the first bank established on Manhattan Island, and the second in the United States. But the banks of New York held back; they wanted to hold on to their names and their history, with which, in one instance, some of the founders of the nation had been identified for years, beginning with its organization. All New York's financial institutions treated the new banking system with indifference. The First National Bank of New York was organized in the basement at the north-east corner of Broadway and Wall Street, by John Thompson, the proprietor of the "*Bank Note Reporter*," with a capital of just $200,000. The smallest capital any national bank could have in a place of more

than 6,000 inhabitants was $100,000; so New York began her national banking on a small scale. Thompson was a great friend and admirer of Secretary Chase. He felt that in organizing the First National Bank of New York he was doing a public service as well as gratifying Mr. Chase. The Second National Bank of New York was organized, under the Fifth Avenue Hotel, with a capital of $200,000. Winslow, Lanier & Co., great friends of Mr. Chase, organized the Third National Bank, with a capital of $300,000. These were the first three national banks in the first banking city in the United States, with a combined capital of only $700,000.

The Secretary of the Treasury was mortified at the coldness of the financial centre of the country toward his pet measure. The banks of all the other great cities in the United States had readily adopted the national system. The attitude of the city of New York was the more noticeable for that reason.

An effort had been made by friends of Mr. Chase in New York, among whom were Mr. George Opdyke and the President of the United States Trust Company, Mr. Stewart, I think, to start a five-million-dollar Fourth National Bank in New York City. All their efforts resulted, however, in obtaining but one million three hundred thousand dollars in subscriptions, and the project was for the time abandoned. About this time I was in Washington, and Mr. Chase mentioned to me his great disappointment.

I told him that, if he so desired, I would go to New York and organize a five-million-dollar national bank within three days. It was on Friday that he authorized me to make the attempt. On Monday morning I went to New York, having communicated with my New York subscription agents, Livermore, Clews & Co., Fisk & Hatch, and Clark, Dodge & Co., and others. A meeting was held in the offices of the trust company, and it was resolved that the bank should be established in three days.

On Monday, at 3 P.M., the first of the three days expired, and we had received stock subscriptions of $2,700,000. This amount included the revival of $1,300,000 in subscriptions previously obtained by the New York committee under Mr. Opdyke. It also included subscriptions of $500,000 which, before leaving on Monday, I had obtained in Philadelphia, $100,000 of it being subscribed there by George H. Stewart and others.

On Tuesday, at 3 P.M., the stock subscriptions amounted to

$3,500,000; on Wednesday, at 3 P. M., the list totalled $4,350,000, and we had yet to hear from my agents in Boston, Cincinnati, Pittsburg, and elsewhere. But we wanted the five millions in hand, according to my promise to the Secretary, on the third day. So eight of us took then and there the remaining $650,000, and the Fourth National Bank of New York was started. The capital of this bank was subsequently reduced to $3,000,000.

When the outside subscriptions to the stock of New York's Fourth National Bank were all in, the aggregate exceeded the amount of capital required.

I caused it to be quietly proclaimed to the New York institutions that the Government did not wish to antagonize them; but that it did expect them all to conform speedily to the new order of things. If it should be necessary to effect this, I was prepared to establish within thirty days a Fifth National Bank of New York with a capital of $50,000,000, which would include the subscriptions of other national banks and of friends of the Government everywhere. It was believed that I could accomplish what was now proposed within the time specified. There was also, in New York, little doubt that the implied co-operation of other national banks throughout the country, together with the Government's influence and deposits, in a $50,000,000 national bank in New York, would greatly cripple the old institutions. This pressure brought about, within the next few months, the transfer to the national system of nearly all the New York banks.

The result has fully justified our expectations. The national banking system was an evolution. Its Federal features offered relief from the perils of State banks. The Chase Act was in part modelled on the provisions of the free banking law of New York. It gave the United States a uniform currency. The banks deposited with the Government the bonds of the Government as security for their circulation. There could not be a stronger basis for entire and perfect security of the banks' circulation, combining as it does the Government guarantee with the capital of the national banks. The nearest previous approach to security for bank circulation was the Safety Fund system of the State of New York, and an admirable system of a similar kind adopted in Ohio. But in almost all the States there had been an entire diversity of bank issues, most of which were unsafe and irresponsible. To those who have experienced the old and the

new, the contrast is stupendous; and all efforts now being made to impair, in any manner, the national system of banking and issues of circulation are based upon false premises and on ignorance of the benefits derived from the national system.

In 1860 there were 1,562 State banks in the United States; in 1868, there were only 247. Prior to 1879, 81 national banks had failed. At the end of 1897, 5,095 national banks had been organized, of which 352, or just 6.9 per cent. had failed, without a dollar's loss to the holders of circulation.

At the beginning of 1864, 139 national banks with loans and discounts of $10,666,095, had individual deposits of $19,450,492. The next year the number of national banks had grown to 638, their loans and discounts to $166,448,718, and their individual deposits to $183,479,636. At the beginning of 1873, a panic year, 1,940 national banks had loans and discounts of $885,653,449 and individual deposits of $598,114,679. The effect of the crisis is strikingly shown the next year. At the beginning of 1874, there were only 36 more national banks than at the beginning of 1873, and these 1,976 institutions had loans and discounts of only $856,816,555,—a fall of nearly $30,000,000 from the figures for 1873. The individual deposits for 1874 were $540,510,602, a fall of nearly sixty millions in a year. From 1885 to 1892 the number of national banks increased from 2,664 to 3,692, their loans and discounts from $1,234,202,226, to $2,001,032,625 and their individual deposits from $987,649,055 in 1885 to $1,602,052,766 in 1892.

From 1893 to 1895, the number of national banks decreased from 3,784 to 3,737, their loans and discounts fell away from $2,166,615,720 to $1,974,623,974, and their undivided deposits from $1,764,456,177 to $1,695,489,346. But from the year 1896 on to the present time the progress of the banks has kept pace steadily with the progress of the country. The national banking system gives us the only United States Bank we need.

II

Congress chartered the Northern Pacific Railroad Company by an act approved on July 2d, 1864. The building of the Union Pacific railroads while we were engaged in the bloodiest war of modern times was an exploit of which, under all the circumstances, only the United States would seem capable. The Union

Pacific, the first of the great trans-continental systems to be actually operated, had not been chartered until July 1st, 1862; yet portions of the line were in actual use before the war was over. They were already proving their value to the Government. In 1865 the Union Pacific operated fifty-six miles; in 1869, it was formally thrown open to traffic on May 10th. That year 742 miles of the Union Pacific were in use.

The friends of the Northern Pacific route saw fewer obstacles in their way. From St. Paul to Seattle the distance was only 1,764 miles, as against 2,366 miles from Memphis to San Francisco—mooted as the Southern route, and 2,482 miles from St. Louis to Benicia, the earliest central route. The charter incorporated certain persons, as commissioners, to lay out a continuous railroad and telegraph line from a point on Lake Superior, on a line north of the forty-fifth degree of latitude, to some point on Puget Sound. The terminus on Lake Superior was finally located at Duluth and Superior, cities at the head of the lake.

The Northern was called the Valley Route. I believe I gave it that name myself. It ran westerly for a long distance through the valleys of the Red River and the Yellowstone River. Its right of way was 400 feet wide, 200 on each side of the track, and its splendid land grant included twenty alternate sections of the public lands, per mile of route, in each Territory, and ten alternating sections in each State. The Government gave to the Northern Pacific Railroad Company, in other words, 47,360,000 acres of land, 12,800 acres per mile of railroad in Wisconsin and Minnesota, and 25,000 acres per mile in Dakota, Montana, Idaho, and Washington. The sales of these lands ought practically to have paid for the construction of the railroad which earned them.

The tenth section of the charter declared that "no mortgage or construction bonds shall ever be issued by said company on said road, or mortgage or lien made in any way, except by the consent of the Congress of the United States." And it speedily became evident that land sales and stock sales would not bring money enough into the company's treasury. The consent of Congress would have to be asked for a bond issue.

The financial agency of the Northern Pacific Railroad Company was offered to Jay Cooke & Co., in 1869. On February 18th, 1870, a Joint Resolution was reported to Congress authorizing the Northern Pacific Railroad Company to mortgage its franchise.

The resolution intimated that this would settle "doubt among capitalists of Europe" as to the company's ability to build the road. On March 1st, the resolution was passed, consenting that the company "issue its bonds and secure same by mortgage upon its railroad and telegraph line, for the purpose of raising funds for the construction of said railroad and telegraph line." The bond issue was formally authorized by another Joint Resolution on May 31st, 1870.

Great care was necessary in each of these steps. It was necessary that "the capitalists of Europe" should find the Northern Pacific bonds an attractive investment. The mortgage indenture was made on July 1st, 1870, to Jay Cooke and J. Edgar Thomson, trustees; Mr. Thomson was president of the Pennsylvania Railroad Company. The mortgage recited that the line "will be in the aggregate about 2,500 miles in length," and that the company had determined to procure a loan not exceeding $50,000 per mile, and to that end to make and deliver its bonds payable in gold, in thirty years, with interest at 7-30/100 per annum, "also payable in gold at the offices of Jay Cooke & Co." in New York, Washington, and Philadelphia.

The Prussian minister at Washington, Baron de Gerolt, owned lands in Minnesota. He was a believer in the future of the Northwest. One evening early in July, I met at dinner at Baron de Gerolt's, two or three German capitalists, members of such houses as the Bleichroders and Seligmans who happened to be in Washington. They were on the eve of returning home. The Northern Pacific Railroad Company's lands and future, its bonds and their gold coupons, were discussed over coffee and cigars. Baron de Gerolt spoke of his own Minnesota lands, and told his guests that I was acting on behalf of the railroad company in much the same capacity as that in which, a few years before, I had acted for the United States Government.

The result of this conversation and of negotiations thereafter formally conducted with Budge, Schiff & Co. of New York, representing a European syndicate, was that Budge, Schiff & Co. subscribed for six or eight millions of Northern Pacific Railroad bonds and took an option on a much larger block of those securities. On a given day $50,000,000 in gold was to be put to the credit of Jay Cooke & Co. On receipt of cable advices to that effect, I was to put $50,000,000 worth of Northern Pacific rail-

road bonds and, as a bonus, $50,000,000 worth of Northern Pacific stock to the credit of the Syndicate in New York.

On July 16th, I received a message by cable to the effect that the fifty millions in gold would be placed in three days to the credit of Jay Cooke & Co.

On July 19th, France unexpectedly declared war against Prussia and Louis Napoleon issued a proclamation.

I was stunned by the blow; France and Prussia could no longer unite in an investment. Their capitalists had armies to move in opposition, not in harmony.

By means of the same system of agencies through which I had placed the war loans for the Government, I now began to sell Northern Pacific bonds. But the capitalists of the United States were just then beginning to feel the effects of the vast cost of our own war, which has been estimated at nearly six thousand million dollars to the Government alone.

No matter how good the Northern Pacific securities were as investments, American capital was locked away from them. Railroads were building all over the country, and banks had made liberal advances on their securities. From 1860 to 1867, the average annual increase of railway mileage had been 1,311; in 1869, the new mileage was 4,953; while in 1870 it amounted to 5,690. The era of railroad construction was at its zenith. The Savings Banks of the country showed deposits in 1870 of $549,874,358.

The speedy end of the war between France and Prussia led me to think of another foreign syndicate to float Northern Pacific bonds. This time I looked to London; but I was promised the powerful co-operation of some of my German friends. An English syndicate was formed to which they became subscribers to the extent of $20,000,000. The gold was to be deposited in London and the bonds and stock in New York.

The Treaty of Washington was signed on May 8th, 1871. The tribunal to arbitrate the "Alabama" claims convened at Geneva in December of that year. On September 14th, 1872, the arbitration tribunal gave a final award in favor of the United States.

The dissatisfaction with which the Geneva award was received in Great Britain was no greater than the satisfaction with which it was acclaimed in the United States. There was as much rejoicing that England had been defeated as that we had been victorious. This feeling was very general. It was too bitter, on

both sides the Atlantic, for a British syndicate to invest at that time in American railway securities. Indeed the differences between the British Premier and the American Secretary of State had been so bitter and antagonistic that the prospect even of a war between the two nations was imminent, and the $20,000,000 syndicate was abandoned on the eve of its success.

Once more I was compelled to look at home for money with which to finance the Northern Pacific Railroad. Railway mileage in the United States had increased 7,670 miles in 1871, and 6,167 miles in 1872. The year 1873 opened under widely unsettled conditions.

The Granger agitation in the West had the effect of still further frightening away investors from railroad securities. The market was already surfeited. In April, 1873, as financial agents of the Northern Pacific Railroad Company, my house issued and circulated widely a pamphlet on "the Valley Route to the Pacific," with an invitation to investors to look carefully into the resources of the company. At that time, 500 miles of the Northern Pacific Railroad had been finished and the company was *ipso facto* entitled to ten million acres of public lands, which were then selling at an average price of $5.60 per acre! There was in sight money enough, in time, to complete an enterprise which has never yet been excelled in the merits of its appeal to the public. I am as firmly convinced of this now as I was then.

But there were factors in the situation which not merit nor energy nor experience could cope with. The silver question was one of them. The New York Warehouse and Security Company, and two or three other banking houses heavily loaded down with railroad securities, failed. A run for legal-tender began on the banks of New York. On September 18th, Jay Cooke & Co. failed.

Country banks called home their deposits from redemption cities, which in turn called their deposits from New York banks. These called their loans in Wall Street.

On September 20th, the Union Trust Company and two or three banks and trust companies suspended. The doors of the Stock Exchange were closed for ten days. On September 22nd, the gold exchange closed with gold at 112. There was no actual panic among merchants; nor outside of New York, except among Savings Bank depositors. But the liquidation thus begun lasted five or six years. The purchase of $12,000,000 of outstanding

bonds by the Government, and the issue of $22,000,000 in Clearing House certificates by the Associated Banks of New York, helped to clear up the situation. There were 5,183 bankrupts in 1873, with liabilities of 228 millions. In 1874, there were 5,830 bankrupts, with liabilities of 155 millions.

The question of the continuance of the issue of silver on the old basis might have been appropriately discussed when silver was demonetized in 1873, by an Act of Congress apparently innocent enough on its face. But it was folly, if not crime, to bring it forward after the country had adjusted itself to the changed financial conditions resulting from the passage of the Act. This was entitled a "Bill Relative to Assays and Mints," in sixty-nine prolix sections, hidden away in which were: Section 15, providing that "the silver coins of the United States shall be a trade dollar, a half dollar, a quarter dollar, etc.," and Section 17, declaring that "no coins either of gold, silver, or minor coinage shall hereafter be issued from the mint other than those of the denominations, standards, and weights herein set forth." This left the currency of the country without a silver dollar, and lessened by about one-half the money which the people used and depended on to pay their debts with. Had the title of the bill indicated that it proposed to legislate the silver dollar out of the United States, it could never have passed. Nearly all the Representatives and Senators who voted for it have since declared that they entirely misunderstood the act by which silver was demonetized, and that they had no intention at that time of dropping the issue of the silver dollar, which was the only issue of silver coinage that was a legal tender.

The enormous discoveries of gold in our country and in other parts of the world have filled the vacuum of legal tenders. Otherwise this wanton and foolish destruction of the legal-tender character of the silver dollar would have been disastrous indeed. The immediate effect of it was to destroy or lessen the ability of the debtor to discharge both foreign and domestic debts. Fortunate indeed it was for the country that the wiping out of so large a portion of our legal tenders was supplemented by gold discoveries.

Since, however, this country and other nations have adjusted themselves to the new condition of things, it would be impossible to restore the legal-tender character of silver.

JAY COOKE.